

Local Government Association (LGA): Briefing, debate on the local government finance settlement 2015-16, House of Commons, 10 February 2015



KEY MESSAGES

- The Local Government Finance Report 2015-16 confirmed that councils will continue to face significant spending reductions. **The figures show that in total there has been a 40 per cent reduction in core government funding to councils since 2010.** This latest settlement will mean that by the end of 2015-16 local government will need to have made £20 billion of savings.
- The Government stated the reduction in resources is no more than 1.7 per cent, which includes council tax, the Better Care Fund (BCF) and other ring-fenced funding. **Without council tax this figure would fall to 3.9 per cent, and excluding the element of the BCF (that will not be spent on social care or commissioned by local authorities), the reduction is 8.5 per cent.**
- In 2015-16 councils will have to make savings of £2.5 billion in their budgets. The effect of this is highlighted by LGA research carried out in 2014, which shows that **60 per cent of respondent councils were considering stopping at least some key local services in 2015 due to efficiency savings running out.**
- **This will have an impact on local government's ability to improve people's quality of life and support local businesses.** It is individuals who have paid the price of funding reductions, whether it is through seeing their local library close, roads deteriorate or support for young people and families scaled back.
- Reductions of the same magnitude until 2020, as forecast by the Office for Budget Responsibility and the Institute for Fiscal Studies, will threaten even more council frontline services.
- Councils have worked hard to restrict the impact of cuts on their residents. **However the 2015-16 settlement is a turning point as key services such as social care for children are now for the first time facing reductions.**
- **The announcement of an additional £74 million in the Settlement Funding Assessment (SFA) for local welfare, health and social care is a positive development** for some of the thousands who may need to turn to their council for emergency assistance. However, this still amounts to a reduction of almost £100 million in funding for local welfare.
- **The LGA has launched its 'Future Funding' campaign,** which will put forward a number of proposals that seek to ensure a financially sustainable future for local government.
- **The LGA is calling on the Government to:**
 - Ensure future funding for the most vital and costliest services is protected.
 - Set all business rates appeals up to 31 March 2013 against the old business rates pools.

Briefing

- Make external funding for council tax support more transparent within the Settlement Funding Assessment.
- Provide longer term certainty for local welfare assistance funding.
- Fully fund Care Act costs.
- Return council tax decisions to the local level.

BACKGROUND INFORMATION

The Settlement in Detail

It is a one year settlement covering 2015-16 only, which largely confirms the illustrative settlement announced in the provisional settlement in December 2013. Specifically:

- Settlement Funding Assessment (SFA) figures for 2015-16 (this includes the local share of business rates and Revenue Support Grant) will fall by 13.6 per cent in 2015-16. Revenue Support Grant has fallen by 27per cent.
- Revenue spending power (RSP) for 2015-16 has been cut by 1.7 per cent in 2015-16. This includes council tax income. Excluding council tax, this is a cut of 3.9 per cent in 2015-16. Removing council tax, the Better Care Fund, other ringfenced funding and social care new burdens funding, the reduction is 11.4 per cent.

Referring to a single measure of spending power is misleading. It is important to note that individual councils are in different financial positions and that there should be greater awareness of this. Looking at London Borough, County, Metropolitan, Unitary and District councils, it is clear that there are local authorities with low and minimum levels of reserves that are in different places on the cycle of cuts to date, and also dealing with different levels of pressure. Overall, levels of reserves have increased, in line with the guidance of Chief Finance Officers. This is a prudent response to increased volatility in income, and reserves cannot be used as a permanent solution to funding reductions.

The Government has confirmed that it will pay an Efficiency Support Grant to councils that would otherwise have a RSP cut of more than 6.4 per cent. The grant is worth £2.19 million and 19 councils are eligible in 2015-16. Government will also continue to pay a grant to the most sparsely populated authorities, which was confirmed at £15.5 million in 2015-16, and this is incorporated into the SFA. Research into funding in rural areas will also be published by Whitehall.

The Better Care Fund

The Better Care Fund (BCF) is showing some early signs of success, and its introduction will help the efforts of some local authorities in protecting vital everyday services. The BCF has a net financial benefit to local government of up to £440 million, in comparison to 2014-15 at this early stage of integration. There are also non-financial benefits, which include increased cooperation and new ways of working, both of which will potentially improve service quality as well as result in financial gains. The Government must now focus its efforts on allowing local areas to shape the next iteration of a bigger BCF over a longer period of time and with an accompanying fund of new money. This process must be free from Whitehall interference, so that transformation can be achieved on the basis of investing to save, rather than saving to invest.

Looking forward, it is important that the Government is honest about the impact of the BCF in the settlement. In the revenue spending power calculation a BCF value of £3.46 billion is included, which is misleading as not all BCF spending is on social care

services or commissioned by local authorities. We understand the priority. However, the way in which this has been implemented means that there is little flexibility, and the way in which it is being funded is masking the significant reductions elsewhere.

We estimate the value of the BCF attributable to social care or local authority commissioning to be £1.97 billion at most before the contribution of councils, in addition to the original specification of the Fund, is taken into account. Adjusting the revenue spending power calculation accordingly means that the actual reduction in full revenue spending power for England is 4.8 per cent, or 8.5 per cent after stripping out council tax.

Social Care

Adult social care is facing a funding gap of £1.6 billion in 2015-16, and this is expected to rise to £4.3 billion by 2019-20. Over the last four years departmental budget savings of 26 per cent have been made to keep adult social care spending under control. This is equivalent to £3.53 billion, and a further £900 million 'cross-subsidy' savings from other local authority services have also been made. If funding for adult social care is not protected in a similar fashion to how health spending is being protected then the situation will only get worse over the next two years. This will also continue to impact on the ability of social care to help mitigate pressures facing vital frontline NHS services.

In this context (and given that some councils may have less funding for implementation than they were expecting) the affordability of the Care Act in 2015-16 remains a principal concern for the LGA and councils. The Department of Health's commitment to work with the LGA and stakeholders to monitor the cost of the Act next year is positive. Where the monitoring shows that councils are incurring costs over their allocation, it must follow that funding is made available to compensate for the shortfall. Following the recent publication of the Impact Assessment for the 2016/17 reforms it is clear that the government has revised down its cost estimate of the reforms by £650 million from its estimate in April 2013. This is a significant reduction and it is therefore essential that the Department of Health again works with the LGA and stakeholders to develop a joint understanding of likely costs.

Councils are working to an extremely challenging timetable on the Care Act. To receive confirmed funding allocations for 2015-16 just four months before implementation puts further pressure on them. This was worsened by uncertainty regarding the level of funding to expect for the 2015-16 reforms.

Deprivation of Liberty Safeguards

The Supreme Court Judgement of March 2014 in the case of 'P v Cheshire West and Chester Council and another' changes the legal definition of 'Deprivation of Liberty' in a way that increases the burdens on local authorities under the Mental Capacity Act (MCA). Specifically, the burden relates to a significant increase in assessments under the MCA Deprivation of Liberty Safeguards (DOLS).

The LGA and ADASS estimate that the judgement is likely to add, at a minimum, £96.8 million above existing local authority MCA and DOLS funding of £35.2 million in 2014/15. This is both an in-year and on-going cost pressure and excludes legal costs. The cost of DoLS is a known cost. Councils are already concerned about the affordability of the Care Act, and their confidence that government will fully fund the legislation will be eroded if it fails to fully fund the known costs associated with DoLS.

Business Rates

The key issue on business rates is the number of appeals still outstanding from the 2010 valuation and before, as half of the cost of backdated appeals fall on councils. This figure was £663 million in 2013-14, and 113,000 cases were outstanding in December 2014. There is a direct impact from this on the settlement because there is a top-slice through the 'safety-net' to pay for extra resources required for the appeals

provision.

The Government should set all appeals up to 31st March 2013 against the old business rates pool, thereby reducing the need for a top-slice. Over the three years from 2013-14 to 2015-16, £195 million was held back from the settlement. This would not have been necessary had the Government agreed for the full costs of backdated appeals to be picked up centrally, and the LGA has been calling for this since 2012.

The Government announced a review of the structure of business rates in the 2014 Autumn Statement and further information is expected in early 2015. The LGA looks forward to playing a full role in the review, and it is good news that councils will continue to be fully compensated for the loss of income from the business rate measures. The extension of the small business rates relief is positive news, as is the Government's commitment to paying for this through the New Burdens Doctrine.

Council Tax Support

The 2015-16 settlement confirms that council tax support (CTS) funding will not be separately identified in 2015-16 (because there is no separate element within the Settlement Funding Assessment) and the £1 billion shortfall between the cost of maintaining the pre-2013 scheme, and the funding available in 2015/16. LGA research on council tax support suggests that this fall has led to increases in household bills for some of the poorest households, and it is expected that further increases are likely in future years as councils strive to protect frontline services.

This treatment contrasts sharply with that of council tax freeze funding, where the element has been specifically protected within authority amounts. We repeat our call for the amount of central support for local council tax support schemes to be separately identified and protected. This would allow councils to make decisions about their local schemes in full possession of the facts, and increasing democratic accountability.

Local Welfare Assistance

The provisional 2015/16 settlement, published in December 2014, announced there would be no additional funding for local welfare assistance, and that the £172 million fund would be effectively scrapped. This would have led to the withdrawal of emergency support for individuals during times of crisis, with many councils being unable to continue to run local welfare schemes.

Following extensive lobbying by the LGA and a range of charities the Government has reversed its initial decision to completely scrap the fund. The final settlement announced an additional £74 million of funding for upper-tier authorities for local welfare assistance and health and social care. This fund will help councils to continue to offer vital services to people in need, but it is still a reduction of almost £100 million, and this will impact upon the provision of local welfare assistance.

New Homes Bonus

The New Homes Bonus represents a considerable addition to funding for some authorities, mainly shire districts. However for many other authorities the effect of it being mainly funded through top-sliced funding is a net reduction in resources. £1,168 million was confirmed for the New Homes Bonus 2015-16 by the Department for Communities and Local Government (DCLG) in February 2015. This will continue to be funded through £250 million in specific grant with the rest in top-sliced funding. £32 million of returned New Homes Bonus funding will be paid as a separate grant in proportion to the Settlement Funding Assessment. This is included in the revenue spending power figures.